MEDICARE PREFERRED PROVIDER ORGANIZATION (PPO)
DEMONSTRATION
FACT SHEET

The Centers for Medicare & Medicaid Services (CMS) has approved the implementation of a PPO Demonstration that will ultimately make available thirty-five new Medicare+Choice (M+C) managed care plans. The goal of this demonstration is to identify options for encouraging continued and expanded participation in the Medicare + Choice program. The demonstration seeks to increase the number and variety of health plan choices available to Medicare beneficiaries and provide beneficiaries with greater opportunities to select a plan that best meets their individual needs. This project will test the impact of enhanced payment and risk sharing arrangements between CMS and the plans on the range of options and benefits available to beneficiaries. The new plans will offer beneficiaries a wide variety of supplemental benefits including drug coverage and, most significant, the freedom to use out of network providers for a higher cost-share.

Background

The Medicare + Choice program was introduced as part of the Balanced Budget Act of 1997 (Pub. L. 105-33). It was intended to increase the range of alternatives to the traditional fee for service program for Medicare beneficiaries. The options anticipated were coordinated care plans, including PPOs and health maintenance organizations (HMOs) (including HMOs with a point-of-service (POS) option), unrestricted private FFS plans, provider-sponsored organizations (PSOs), and medical savings accounts. Unlike traditional HMO products, some of these options allow Medicare beneficiaries who choose to enroll, access to services provided outside the contracted network of providers. Unfortunately, the number and range of options available have not increased over time. Of the 179 M+C contracts offered in 2002, only 3 offer PPO plans and 2 are private FFS plan contracts. The remaining plans are HMOs, of which a relatively small number offer an out of network "point of service" (POS) option.

Through independent contractors, CMS researched specific health care models in the non-Medicare market, in an attempt to ascertain whether these models might be effective in the Medicare program. This researched indicated that the success of the PPO concept is not being replicated in the Medicare program. Based on the results of this research, CMS decided to design a demonstration initiative to expand options and choices in the M+C program by increasing incentives for M+C organizations to enter the market and offer PPO products.

Legislative Authority

CMS is permitted to conduct the demonstration pursuant to Section 402 of the Social Security Amendment of 1967, which authorizes demonstrations and allows CMS to waive requirements in Title XVIII that relate to reimbursement or payment.

Selection Process

CMS issued the special solicitation for PPO demonstrations in the Federal Register on April 15, 2002. Because of the desire to make the new options available to beneficiaries

in January 2003, proposals had to be submitted by May 30, 2002. A panel of technical experts reviewed the proposals in accordance with specified evaluation criteria, and made formal recommendations to the Administrator. On August 27, 2001, CMS announced the selection of seventeen organizations to offer PPO products in 23 states.

Demonstration Plans

Organizations participating in the demonstration are currently offering 31 plans in 19 states. While most of the plans are available as of January 1, 2003, some of the plans will become operational later in 2003. Ultimately, 35 plans will be offered in 23 states, resulting in new options for over 11 million beneficiaries. The table below lists the new plans offered under this demonstration. Information regarding plan-specific benefits, as well as plan contact information, is available on the CMS Medicare Health Plan Compare website, located at www.medicare.gov.

This demonstration program is modeled after the PPO coverage available in the commercial market. Although all plans were required to offer out of network benefits, few other specific requirements were applied to the benefit design. Differential cost sharing requirements in and out of network were intended to encourage enrollees to use services in a cost effective manner while not providing a disincentive towards seeking appropriate care. As a result, the plans offer a wide variety of options for beneficiaries. All offer a range of out of network benefits although, in some cases, not all Medicare-covered services may be available on an out of network basis.

Referrals will not be required for out-of-network care, although in some cases there may be pre-certification requirements. Most plans will also offer a prescription drug benefit, although the level and type of benefits covered vary. For example, most plans that include a prescription drug benefit will offer both retail pharmacy as well as mail order in-network. Some plans will offer both generic and brand name drugs, while others will offer generic drugs only. Additionally, some plans will offer unlimited drug benefits, while others have specified limits with regard to the drug benefit. Some plans will also offer additional supplemental benefits for vision and hearing screenings, disease management, and other services not covered under the traditional Medicare program.

Risk Sharing

The key feature that distinguishes the PPO products offered under his demonstration from that offered as part of the regular M+C program is the financing/payment provision. One of the risks to managed care organizations in offering a PPO is the potential for increased medical expenses and significant financial losses as a result of high utilization of out of network providers. As an incentive to get such organizations to enter this market, CMS is offering participating organizations, under this demonstration, higher payment rates as well as risk-sharing arrangements. Organizations that offer PPO products under the demonstration will be paid the higher of the traditional M+C capitation rate or 99% of the average fee for service payment amount in each of the counties in which a plan is offered. In addition, all but five of the participating organizations have entered into a risk sharing arrangement with CMS. Risk sharing arrangements under this demonstration, where

applicable, are specific to each plan offering a PPO product, and are symmetrical, meaning that the risk assumed by CMS is the same for both losses and savings.

The risk sharing arrangement specifies a targeted medical loss ratio, or medical expense target, reflected as a percentage of total plan revenue. The risk sharing arrangement will be reconciled 12 months after the close of the contract year, at which point the actual medical loss ratio will be established. To the extent medical expenses exceed the targeted medical expense by more than a pre-established amount, CMS and the organization will assume a share of the losses, in accordance with the risk sharing arrangement specific to each participating organization. Similarly, if the participating organization experiences savings, CMS will share in the savings.

All of the participating organizations that have risk sharing arrangements with CMS as part of their demonstration terms and conditions are at full risk in a 2 percent corridor around the medical loss ratio, meaning the first 2 percent of any losses or gains in relation to the targeted MLR is assumed by the plan. Beyond the 2 percent corridor, both CMS and the plan share risk under various specified arrangements. However, CMS's risk is never more than 80 percent.

Evaluation

Research Triangle Institute, an independent contractor under the direction of CMS's Office of Research, Development & Information, has been selected to conduct a comprehensive evaluation of this demonstration initiative. The evaluation will include a case study component to examine issues pertaining to the implementation and operational experiences of the PPOs as well as analyses of primary data collected from a beneficiary survey and secondary data. The survey will focus on beneficiary awareness and understanding of the PPO option; reasons for enrollment; experience and overall satisfaction with the plan; and reasons for disenrollment. The secondary data analyses will focus principally on the impact of the demonstration on Medicare program expenditures.

MEDICARE PREFERED PROVIDER ORGANIZATION DEMONSTRATION
PARTICIPATING PLANS AND SITES

I. Active Plans Effective January 1, 2003 (31 plans covering 19 States)

PLAN NAME	STATE
Advantage Health Plan, Inc.	Indiana
Aetna Health Inc. of Maryland	Maryland
Aetna Health, Inc. of New Jersey	New Jersey
Aetna Health Inc. of Pennsylvania	Pennsylvania
Cariten Insurance Company	Tennessee
Coventry Health And Life Insurance Company	Illinois/Missouri
Coventry Health And Life Insurance Company	Ohio/West Virginia
Group Health Incorporated (Note: contract effective February 1, 2003)	New York
Health Assurance Pennsylvania, Inc. (Coventry)	Pennsylvania
Health Net Life Insurance Company	Arizona
Health Net Life Insurance Company	Oregon/Washington
HealthNow New York, Inc.	NewYork
Healthspring, Inc.	Tennessee
Horizon Healthcare of New Jersey, Inc.	New Jersey
Humana Insurance Company	Florida
Managed Health Inc.	New York
OSF Healthplans, Inc.	Illinois
PacifiCare Of Arizona	Arizona
PacifiCare of Nevada, Inc.	Nevada
Tenet Choices, Inc.	Louisiana
United Healthcare Ins. Company Inc. (2 different plans for 2 distinct service areas)	Florida
United Healthcare Insurance Company (2 different plans for 2 distinct service areas)	Alabama
United Healthcare Ins. Company, Inc.	Illinois/Missouri
United Healthcare Insurance Company, Inc.	North Carolina
United Healthcare Insurance Company of New York	New York
United Healthcare Insurance, Company, Inc. (2 different plans for 2 distinct service areas)	Ohio
United Healthcare Insurance Company, Inc.	Rhode Island
UPMC Health Benefits, Inc.	Pennsylvania

MEDICARE PREFERED PROVIDER ORGANIZATION DEMONSTRATION
PARTICIPATING PLANS AND SITES (Continued)

II. Plans Expected to be Available After January 1, 2003

PLAN NAME	STATE
PacifiCare Life/Health Insurance Company, Inc	California
Coventry Health And Life Insurance Company	Kansas and Missouri
Anthem BCBS	Kentucky/Ohio
Cariten Insurance Company	Virginia